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U.S. BANKRUPTCY COURT  
E.D. MICHIGAN-DETROIT

To: Honorable Steven W. Rhodes  
U.S. Bankruptcy Court  
Eastern District of Michigan  
Southern Division  
211 W. Fort Street  
Detroit, Michigan 48226

From: Daniel Dean  
City of Detroit Retiree  
of the General Retirement System  
16836 Edmore  
Detroit, Michigan 48205  
586-770-6452

**Re: City of Detroit Bankruptcy - Significant Differences noted in two separate parts of the City's Plan of Adjustment as related to the Estimated Recovery Percentage and Recovery Amount of the \$1,879,000,000 Impaired GRS Pension Claim Amount**

An important element of the bankruptcy process to General Retirement System (GRS) Retirees is the recovery of as much as possible of the \$1,879,000,000 (\$1.879 billion) Impaired GRS Pension Claim amount by GRS Retirees and other GRS claim holders.

Since I have a vested interest in the bankruptcy outcome as a City GRS retiree and have a reasonably good financial and accounting background, I decided to review parts of the City's Plan of Adjustment that pertain to recovery of the Impaired GRS Pension Claim amount.

In reviewing these pertinent parts of the City's Plan of Adjustment, I noted significant differences (both With Outside Funding and Without Outside Funding) between two parts of the Plan as related to the Estimated Recovery Percentage and Amount of the \$1.879 billion Impaired GRS Pension Claim amount that is expected to be recovered by Retirees under the City's Plan of Adjustment. These differences exist in the Plan, no matter the results of the voting by the claim holders.

These differences between the two separate parts of the Plan are as follows:

The Estimated Recovery Percentage and Amount With Outside Funding are:  
**48.3% vs. 60%, an 11.7% difference**  
**\$908 million vs. \$1,127 million, a \$219 million difference**

The Estimated Recovery Percentage and Amount Without Outside Funding are:  
**2.8% vs. 48%, a 45.2% difference**  
**\$53 million vs. \$902 million, an \$849 million difference**

The smaller percentages and amounts cited above are based on an analysis (included as an accompanying six page Attachment) of the recovery of part of the \$1.879 billion Impaired Amount by GRS Retirees under Alternative A (With Outside Funding) and under Alternative B (Without Outside Funding), as included on page 17 of the Plan of Adjustment.

The larger percentages and amounts cited above are based on the specific Estimated Recovery Percentages of 60% (With Outside Funding) and 48% (Without Outside Funding) by GRS Retirees, as included on page 39 of the Plan of Adjustment, which is entitled 'Classification and Treatment of Claims Under the Plan'.

While I realize these percentages and amounts are based on estimates, the differences are too large to be explained away by the word 'estimate', especially considering they represent very important and critical amounts to the Retirees, the City, and the Court to not be presented in a straightforward manner as accurately as possible.

The presentation of the estimated recovery percentages in the Plan of Adjustment included on page 39 is misleading to GRS Retirees, the Bankruptcy Court, and other interested parties. Hopefully, the Bankruptcy Court process will help provide clarity, obtain satisfactory answers to the reasons for the differences, and obtain a reasonably accurate estimate of the recovery percentage and amount from the City's bankruptcy representatives.

The six page attachment to this letter provides supporting detail pertaining to each of the cited estimated recovery percentages, related recovery amounts, and differences.

Page 6 of the attachment also provides two suggested questions for the Court to pursue with the City.

Sincerely,

*Daniel Dean*

Daniel Dean

ATTACHMENT

Within separate parts of the City's Plan of Adjustment submitted to the Bankruptcy Court on May 5, 2014, there are significant differences (which can be misleading to retirees and the Bankruptcy Court) in the Estimated Recovery Percentages related to the \$1,879,000,000 (\$1.879 billion) of Impaired GRS Pension Claim Amount that GRS Retirees and other GRS (Class 11) claim holders could receive in the bankruptcy process.

Page 39 of the City's Plan of Adjustment indicates that General Retirement System (GRS) Retirees' Estimated Recovery Percentage for the \$1,879,000,000 of Impaired GRS Pension Claim Amounts is either (a) 60% With the benefit of Outside Funding or (b) 48% Without the benefit of Outside Funding. However, analysis of Alternative A and Alternative B (one of which is likely to be implemented in the bankruptcy process, depending on claim holders voting results), as detailed on page 17 of the City's Plan of Adjustment, results in a computed Estimated Recovery Percentage for GRS Retirees of either (a) 48.3% With Outside Funding or (b) 2.8% Without Outside Funding.

The following schedule computes the differences in Estimated Recovery Percentages and Amounts between the two separate parts (on page 17 and on page 39) of the City's Plan of Adjustment:

	Estimated Recovery <u>With Outside Funding</u> Amount Percentage (in Millions)	Estimated Recovery <u>Without Outside Funding</u> Amount Percentage (in Millions)
Per Alternatives A and B noted on page 17 of the Plan of Adjustment..	48.3 % \$ 908	2.8 % \$ 53
Per page 39 of the Plan of Adjustment.....	<u>60.0 %</u> <u>1,127</u>	<u>48.0 %</u> <u>902</u>
Differences.....	<u>11.7 %</u> <u>\$ 219</u>	<u>45.2 %</u> <u>\$ 849</u>

The above schedule shows that the Estimated Recovery Percentages included on page 39 significantly overstate (a) by 11.7% and \$219 million the Percentage and Amount that GRS Retirees will recover compared to Alternative A (With Outside Funding) and (b) by 45.2% and \$849 million the Percentage and Amount that GRS Retirees will recover compared to Alternative B (Without Outside Funding).

The implementation of Alternative B would mean that GRS Retirees and other GRS claim holders would receive not 48 cents on the dollar, not 10 cents on the dollar, but less than 3 cents on the dollar.

Pages 38 and 39 of the Plan of Adjustment contain that part of a thirteen page chart entitled 'Classification and Treatment of Claims Under the Plan', which details and explains Class 11 - GRS Pension Claims. The bottom of page 39 provides the following two percentages related to the \$1.879 billion Impaired GRS Pension Claim Amount:

- Estimated Recovery Percentage with Outside Funding: 60%
- Estimated Recovery Percentage without Outside Funding: 48%

Page 17 of the Plan of Adjustment also includes two parts - one With Outside Funding (identified as Alternative A) and the other Without Outside Funding (identified as Alternative B). The first part is entitled 'Alternative A - Estimated Adjustments to Pension Benefits if Classes 10 and 11 Vote Yes on the Plan'. The second part is entitled 'Alternative B - Estimated Adjustments to Pension Benefits if Classes 10 or 11 Vote No on the Plan'. This page of the Plan of Adjustment does not cite any specific Estimated Recovery Percentage by GRS Retirees of the \$1.879 billion Impaired GRS Pension Claim Amount but page 17 does provide data that facilitates computation of such Estimated Recovery Percentage for both Alternative A and Alternative B.

The four pages (pages 2 to 6) which follow provide details of the analysis used to compute (1) the Estimated Recovery Percentages and (2) the Estimated Recovery Amounts for both Alternative A and Alternative B, as included in the Plan of Adjustment.

Page 6 also includes two important questions for the Bankruptcy Court to pursue related to the partial recovery by GRS Retirees of the \$1.879 billion Impaired GRS Pension Claim Amount, under the City's Plan of Adjustment.

Computing the Estimated Recovery Percentages and related Amounts (which are not specifically provided in the Plan of Adjustment for either Alternative A or Alternative B) of the \$1.879 billion of Impaired GRS Pension Claim Amounts that would be recovered by individual GRS Retirees and other GRS claim holders (e.g., current City employees, former employees, and survivors) under Alternative A and Alternative B requires a several step analysis involving parts of the Plan of Adjustment. This analysis consists of six connected and sequential steps involving computations of which steps #1 and #2 although simple to compute are the most essential.

What follows is a step-by-step detailing of the computations made for this analysis along with pertinent Plan of Adjustment references.

**Details of the Step-by-Step Analysis  
Used to Compute the Estimated Recovery Percentages and Amounts  
by GRS Retirees and Other GRS Claim Holders  
of the \$1.879 Billion GRS Impaired Amount  
Under Alternative A and Alternative B of the City's Plan of Adjustment**

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**For Step #1:** Computing the Total Present Value of GRS Liabilities owed to GRS Retirees and other GRS claim holders, as of June 30, 2013

Per page 14 of the Plan of Adjustment, the present value of the total liabilities of the General Retirement System (GRS), as of June 30, 2013, "is equal to ... the market value of the assets in GRS as of June 30, 2013", which is \$2.099 billion [per page A-11 of the 75th Annual Actuarial Valuation of the GRS as of June 30, 2013, performed by Gabriel Roeder Smith & Company] plus the "\$1.976 billion ... estimated amount of the underfunding for GRS as of June 30, 2013". These two amounts, which total \$4.075 billion (the \$2.099 billion market value of the assets plus the \$1.976 million estimated amount of underfunding for GRS as of June 30, 2013) equals the total present value of GRS liabilities, as of June 30, 2013, according to page 14 of the Plan of Adjustment.

	<u>Under Alternative A</u>	<u>Under Alternative B</u>
Market Value of Assets .....	\$ 2.099 Billion	\$ 2.099 Billion
Add: Unfunded Liabilities .....	+ <u>\$ 1.976 Billion</u>	+ <u>\$ 1.976 Billion</u>
Total Present Value of GRS Liabilities.....	<u>\$ 4.075 Billion</u>	<u>\$ 4.075 Billion</u>

For Step #2: Computing the Estimated Percentage Reduction in Total GRS Liabilities  
Owed to GRS Retirees and other GRS claim holders that Would Not be Paid

The percentage reductions to Class 11 Claim holders (i.e., GRS Retirees and other GRS claim holders), as enumerated on page 17 of the Plan of Adjustment, consist of the following reductions to total GRS liabilities under Alternative A (With Outside Funding) and Alternative B (Without Outside Funding):

Estimated Percentage Reductions in Total GRS Liabilities

	<u>Under Alternative A</u>	<u>Under Alternative B</u>
Reduction in Current and Future		
Monthly Pension Payments.....	4.2 % *	25.2 % *
Loss of Future COLA .....	14.5 %	14.5 %
Annuity Savings Recoupment .....	<u>7.5 % **</u>	<u>7.5 % **</u>
Total Percentage Reduction.....	<u>26.2 %</u>	<u>47.2 %</u>

\* The 4.5% and 27% reductions in current and future monthly pension payments (noted on page 17 of the Plan of Adjustment) translate into approximately 4.2% and 25.2% reductions (as presented on the above schedule) in Total GRS Liabilities. This lessening of the percentage (from 4.5% to 4.2% and from 27% to 25.2%) 'reduction in current and future monthly pension payments' recognizes that the present value of current pension amounts represents an amount that is somewhat less (e.g., it does not include future COLA) than the present value of total GRS liabilities, as of June 30, 2013.

\*\*As noted on page 17 of the Plan of Adjustment, "Annuity Savings Fund Recoupment is expected to be about 8.8% of the total GRS liabilities after COLA", which translates into an effective reduction of 7.5% to total GRS liabilities [ (8.8%) X (100% -14.5%) = 7.5%].

For Step #3: Computing the Estimated Percentage of Total GRS Liabilities  
that would be Paid to GRS Retirees and other GRS claim holders

	<u>Under Alternative A</u>	<u>Under Alternative B</u>
Percentage of Total GRS Liabilities .....	100.0 %	100.0 %
Less: Percentage Reduction of Total GRS Liabilities that Would Not be Paid (from Step 2 above).....	<u>- 26.2 %</u>	<u>- 47.2 %</u>
Estimated Percentage of Total GRS Liabilities that Would be Paid. ....	<u>73.8 %</u>	<u>52.8 %</u>

For Step #4: Computing the Estimated Amount of Total GRS Liabilities  
that would be Paid to GRS Retirees and other GRS claim holders

	<u>Under Alternative A</u>	<u>Under Alternative B</u>
Total GRS Liabilities (from Step 1 above).....	\$ 4.075 Billion	\$ 4.075 Billion
Multiplied by: the Estimated Percentage of Total GRS Liabilities that Would be Paid (from Step #3 above)....	<u>X 73.8 %</u>	<u>X 52.8 %</u>
Equals: Estimated Amount of Total GRS Liabilities that Would be Paid ...	<u>\$ 3.007 Billion</u>	<u>\$ 2.152 Billion</u>

For Step #5: Computing the Estimated Amounts and Percentages of the \$1.879 billion  
of Impaired GRS Pension Claim Amounts that would be Recovered by  
GRS Retirees and other GRS claim holders

<u>Estimated Recovery Amount</u>	<u>Under Alternative A</u>	<u>Under Alternative B</u>
Estimated Amount of Total GRS Liabilities that Would be Paid (from Step #4 above)...	\$ 3.007 Billion	\$ 2.152 Billion
Less: Market Value of Assets (from Step #1 above).....	<u>2.099 Billion</u>	<u>2.099 Billion</u>
Estimated Impaired Amount that would be Recovered by GRS Retirees and other claim holders.....	<u>\$ .908 Billion</u>	<u>\$ .053 Billion</u>

Estimated Recovery Percentage

Estimated Impaired Amount that would be Recovered by GRS Retirees and other GRS claim holders (from Step #5 above).....	\$ .908 Billion	\$ .053 Billion
Divided by: the \$1.879 billion of Impaired GRS Pension Claim Amount (cited on page 38 of the Plan of Adjustment).....	\$ 1.879 Billion	\$ 1.879 Billion
Equals: Estimated Percentage of the Impaired Amount that would be Recovered by GRS Retirees and other GRS claim holders.....	48.3 %	2.8 %

For Step #6: Comparing the Estimated Recovery Percentages (cited on page 39 of the Plan of Adjustment) to the Estimated Recovery Percentages that were computed in Step #1 through Step #5 of this analysis based on data and details (included on pages 14 and 17 of the Plan of Adjustment) related to Total GRS Liabilities and the reductions in pension payments to GRS Retirees under Alternative A and Alternative B.

	Under Alternative A <u>(With Outside Funding)</u>	Under Alternative B <u>Without Outside Funding</u>
Estimated Recovery Percentages (on page 39 of the Plan of Adjustment).....	60.0 %	48.0 %
Less: Estimated Recovery Percentages (based on data and details provided on pages 14 and 17 of the Plan of Adjustment and from Step #5 above).....	<u>48.3 %</u>	<u>2.8 %</u>
<b>Overestimate of Estimated Recovery Percentages</b> that would be paid to GRS retirees and other GRS claim holders.....	<u>11.7 %</u>	<u>45.2 %</u>

#### Questions for the Bankruptcy Court to Pursue

1. Why the large disparity between two parts (per page 17 and page 39) of the City's Plan of Adjustment on such important and key figures of the Plan?
2. Which Estimated Recovery Percentages are more accurate, the 60% and 48% noted on page 39 of the chart entitled "Classification and Treatment of Claims Under the Plan", or the 48.3% and 2.8% based on pension decreases under Alternative A and Alternative B noted on page 17 ?